



WEEKLY ECONOMIC DIGEST



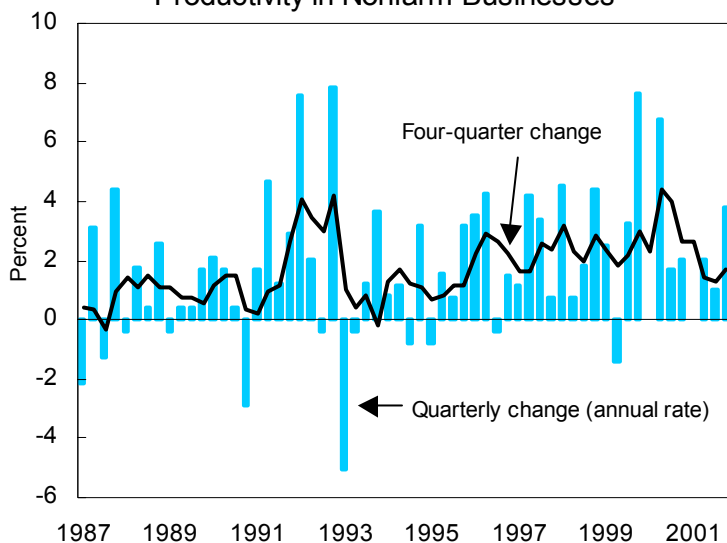
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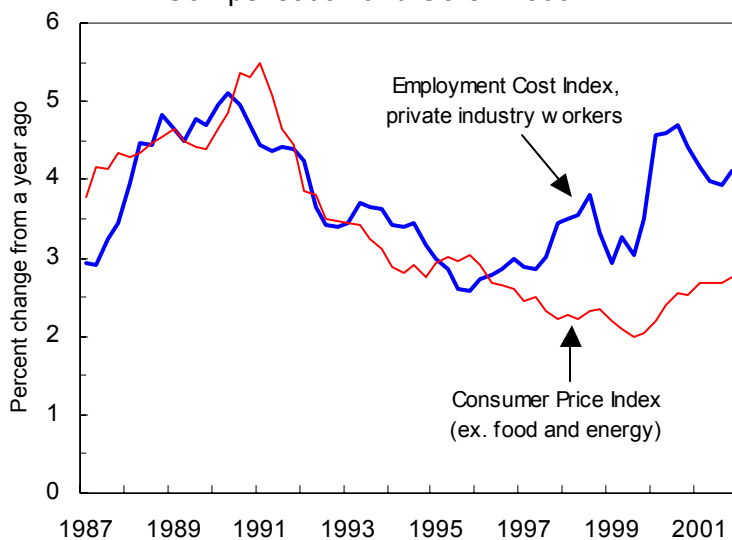
February 12, 2002

Productivity Accelerated as Hours Shrank

Productivity in Nonfarm Businesses



Compensation and Core Inflation



- **Labor productivity rose sharply in the fourth quarter.** Output per hour in nonfarm businesses grew 3.5 percent at an annual rate in the final quarter of last year to 1.6 percent above its level in the final quarter of 2000. That is unusually strong productivity growth in a recession. Productivity has risen 1.7 percent since the end of the expansion last March, compared with the median 0.6 percent increase for previous postwar recessions.
- **Hours worked shrank in the fourth quarter.** The strong productivity performance in the fourth quarter of last year reflected a 3.7 percent decline in hours worked. Employers have cut back hours at about the same pace as in past recessions, but strong productivity growth has kept the decline in output quite modest. Three quarters after the business cycle peak, nonfarm output is down only 0.8 percent, while hours are down 2.4 percent. At the same point in the last recession, for example, output was down 1.4 percent from its level in the peak quarter, while hours were down 2.2 percent.
- **Compensation growth slowed in 2001 but outpaced inflation.** The Employment Cost Index (ECI) for private industry workers grew 4.1 percent last year, down from its 4.4 percent advance in 2000. That increase in compensation was nevertheless well above the 2.8 percent core rate of inflation (the change in the Consumer Price Index for all goods excluding food and energy). After adjustment for inflation, wages and benefits have continued to grow during the current recession. Three quarters after the overall cyclical peak, real compensation was one percent above its peak-quarter level. At the same point in the 1990s recession, real compensation was down 0.2 percent from its level during the peak quarter.
- **Profits may pick up before employment.** Other things equal, strong productivity growth makes it easier for businesses to enhance their profitability without having to raise prices or lower wages. Although productivity growth is unlikely to continue at the fourth-quarter rate, its strong performance throughout the recession tends to support the view that the underlying trend rate of productivity growth remains strong. Over the short run, however, employers may have less incentive to boost their payrolls aggressively if the pace of the recovery is modest.

Economy At A Glance	Jan	Dec	Nov	Oct	2001 Qtr 4	2001 Qtr 3	2001 Qtr 2	2001 Qtr 1	2001	2000
Economic Activity										
Real GDP (% growth)					0.2	-1.3	0.3	1.3	1.1	4.1
Industrial Production (% growth)*		-1.2	-4.7	-8.1	-7.2	-4.7	-5.9	-6.1	-3.9	4.5
Capacity Utilization (Level, %)*		74.4	74.5	74.9	74.6	76.2	77.4	78.9	76.8	81.8
Civilian Unemployment Rate (Level, %)	5.6	5.8	5.6	5.4	5.6	4.8	4.5	4.2	4.8	4.0
Housing Starts (Thousands)		1570	1625	1518	1571	1601	1623	1627	1606	1575
Real Disposable Personal Income (% growth)		5.6	1.4	-25.3	-7.8	12.3	2.4	2.7	3.6	3.5
Retail Sales (% growth)*		-1.3	-30.9	109.8	11.3	-1.3	5.2	5.4	3.5	7.6
Personal Saving Rate (Level, %)		1.0	0.5	0.2	0.6	3.8	1.1	1.1	1.6	1.0
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)		-2.4	0.0	-3.5	-0.4	0.7	3.1	4.2	2.8	3.4
Core CPI-U Inflation (% growth)		1.2	4.9	2.4	2.7	2.5	2.6	3.2	2.7	2.4
Compensation per Hour (% growth)					4.1	3.6	4.1	4.5	4.1	4.4
Output per Hour (% growth)					3.5	1.1	2.1	-0.1	1.8	3.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	1.7	1.7	1.9	2.2	1.9	3.2	3.7	4.8	3.4	5.8
T-Note Rate, 10-years (Level, %)	5.0	5.1	4.7	4.6	4.8	5.0	5.3	5.1	5.0	6.0
Federal Funds Rate (Level, %)	1.8	1.8	2.1	2.5	2.1	3.6	4.3	5.6	3.9	6.2
Dow Jones Industrial Avg (Index Level)	9924	9980	9722	9221	9641	9934	10669	10513	10189	10735

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week.

Major Economic News Due This Week:

- **Advance Retail Sales, January 2002** [Release: Wednesday, February 13]
- **Import and Export Prices, January 2002** [Release: Thursday, February 14]
- **Industrial Production and Capacity Utilization, January 2002** [Release: Friday, February 15]
- **Producer Price Index, January 2002** [Release: Friday, February 15]